Financial Effects of Other Comprehensive Income on Smes in Medellín - Colombia

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Abstracts: The other comprehensive income as an equity component is a fundamental part of the financial information with the application of international accounting standards. The main objective of this article was to analyse the financial effects of other comprehensive income in SMEs in Medellín - Colombia. To meet this objective, a methodology was used that included the selection of a representative sample of 137 companies classified as SMEs from a total population of 16,553 business registers. In addition, an instrument designed to analyse the financial effects of other comprehensive income in this type of company was applied.The results of the study indicate that one of the effects of ORI on the financial statements is the conception of realised and unrealised income and expenses and their immediate and future effect on the financial life of the company, thus, ORI items represent movement in equity that do not derive from transactions with partners or shareholders; they affect the statements of changes in equity and comprehensive income. Likewise, ORI impacts financial indicators related to solvency, profitability, indebtedness as indebtedness over total assets, debt concentration, leverage indebtedness. The analysis of the results allows us to conclude that the implementation of the ORI in SMEs in Medellín brings key benefits. Among these, the improvement in transparency stands out, as it provides detailed information on items that were not traditionally included in the income statement. This increased transparency is of great importance, as it contributes significantly to building confidence among investors and stakeholders, strengthening the perception of SMEs' financial operations. The inclusion of ORI in financial reporting has a positive impact on informed decision-making by SMEs in Medellín. This is because it allows SMEs to provide investors and managers with a more complete and accurate view of their financial performance. This improved information becomes a strategy that empowers SMEs to adjust their operations as needed, thus ensuring their long-term sustainability.

Keywords: Financial Reporting, IFRS for SMEs, other Comprehensive Income, Smes, Sections.

1. INTRODUCTION

Throughout history, organisations have required tools to evaluate their organisational processes, among which is accounting (Rodríguez, 2020), constituting, according to the same author, an instrument that records and classifies the economic events that take place in a company, taking into account each of its characteristics, in order to obtain information that is useful and relevant for decision-making. Accounting is regulated by standards and guidelines, such as the International Financial Reporting Standards (IFRS).

Likewise, accounting is a means that supports and guarantees the development of organisations, through the processing of data that are interpreted as relevant when presenting information on economic transactions and obligations within and outside the company, requiring both people and the resources and knowledge that are available to the entity, favouring its development in an efficient manner (Martínez and Sánchez, 2019).

The implementation of IFRS has generated a significant transformation in the way companies present their financial reports. In particular, in the context of small and medium-sized enterprises (SMEs) located in Medellín, they have faced the challenge of understanding and implementing these criteria, particularly as regards their link with Other Comprehensive Income (OCI) (Ávila and Hernández, 2016).

The ORI depends directly on the measurement methods proposed by IFRS, SMEs applying those standards, if they have economic events related to those listed in table 1, should be aware of the respective sections described there, because the ORI as such relates not only to measurement, but also to recognition, presentation and disclosure.

Table 1 Sections related to the ORI

Section	Relationship with the ORI	Dynamics
3	It sets out the financial statements to be presented, including the ORI.	Presentation
5	It establishes the criteria for the presentation of the ORI.	Presentation
12	Some changes generated by the fair value measurement of hedging instruments.	Recognition, measurement, disclosure
14	Recognition of changes in the amount of investments in associates under the equity method.	Recognition, measurement
15	Recognition of changes in the amount of investments in joint ventures under the equity method.	Recognition, measurement
17	Recognition of changes in the amount of property, plant and equipment under the revaluation method.	Recognition, measurement, disclosure
28	Actuarial gains and losses.	Recognition, measurement, disclosure
29	Effects of items generating ORI on deferred taxes	Recognition, measurement, disclosure
30	Foreign currency translation gains and losses on foreign operations.	Recognition, measurement, disclosure

The financial effects of ORI are a fundamental part of the assessment of the financial health of SMEs. This represents a category of results in the financial statements that includes items that do not directly affect net income, but have a significant impact on the financial position of the company over time. These financial effects can be both positive and negative and are important to understand the full picture of an SME's economic situation (Ismail et al., 2022); (Kusuma et al., 2021).

In the context of SMEs, ORI can encompass a variety of elements, such as changes in the fair value of available-for-sale investments, foreign currency translation differences, current and accumulated revaluation gains and losses on assets, among others. These elements can influence the structure of the statement of financial position and ultimately the company's ability to generate sustainable profits in the long term (Durocher et al, 2023). Proper management of ORI is essential for SMEs because it can affect investor perception, the solvency of the firm and its ability to distribute dividends. In addition, it can influence financing decisions and the valuation of the company in the event of a possible sale, which may occur when the company carries out operations with foreign currencies and organisations, where it has hedging instruments and when there is a revaluation of assets belonging to property, plant and equipment (Salazar, 2013).

However, according to Salazar (2013) it has the potential to have a significant impact on the financial and strategic decisions of SMEs. Research has confirmed that effective ORI management can lead to improved financial stability, strengthened competitive position, and increased investor and stakeholder confidence in SMEs. Nowadays, organisations aspire to access international markets, attract new investors and creditors, achieve high transparency, reliability and proper application of regulations when presenting their financial statements. This is essential to be part of the globalised market and to comply with established international standards. In this context, numerous opportunities open up for the growth and expansion of SMEs, allowing them to prosper financially (Avila and Hernandez, 2016); (Salazar, 2013).

The implementation of ORI in SMEs in Medellín is a process that demands a thorough understanding of accounting regulations, both at national and international level. This process implies a pervasive need to effectively apply accounting and financial best practices, as well as to propose practical solutions for effective ORI management. Firstly, it is essential for SMEs to understand the national and international accounting regulations governing the treatment of ORI. This includes being aware of updates and changes in regulations, as these can affect the way ORI is reported and managed. A solid understanding of these regulations provides the basis for making informed financial decisions and ensures that SMEs comply with the standards set as it is crucial for SMEs to understand and properly manage ORI in order to maintain a sound financial position and attract investors and business partners (Botero et al., 2018).

Therefore, according to Ardila et al., (2016) incorporation of ORI in SMEs in Colombia translates into a series of significant benefits that positively impact their performance and competitiveness. It brings us multiple utilities such as strengthening decision-making, increasing the efficiency of procedures, reducing costs, optimising the use of resources, and increasing productivity.

ORI has the potential to have a substantial impact on the financial reporting of SMEs in Medellín. Changes in the fair value of certain financial assets, such as investments in hedging instruments, can result in changes in ORI. When these items are transferred to net income, they have a direct effect on the result for the period. For SMEs, especially those with significant investments in financial instruments, understanding and managing this impact becomes crucial for making informed financial decisions and achieving economic stability (Ardila et al., 2016).

In this way, perspectives, and precedents from previous research, as well as theoretical and conceptual references drawn from scientific articles, have played a key role in the formulation of this study. These resources have provided essential knowledge for the elaboration of a study article that would address the problem posed and provide the organisations under study with more solid tools for informed decision making. The positions and background previously employed serve as the basis on which the present study is based. Fully understanding the importance and application of these in the context of SMEs in Medellín is a constantly growing field, which has attracted the attention of researchers and practitioners in recent years, this will help to understand the background and previous research in this field (Fuentes et al., 2018); (Lindao and Pérez, 2013).

2. MATERIAL AND METHODS

2.1. Population and Sample

The target population are SMEs in Medellín, which at the end of 2022, according to the Medellín Chamber of Commerce for Antioquia (CCMA, 2023) numbered 16,553. Of the total business population identified, a simple random sample calculation was used, with a confidence level of 95% and a margin of error of 5%, obtaining a representative sample of 137 companies, as follows:

n = N * (Z^2 * p * (1 - p)) / ((N - 1) * e^2 + Z^2 * p * (1 - p)).

Where:

n= is the sample size.

N= is the size of the total population (16,553).

Z= is the critical value of the standard normal distribution corresponding to the 95% confidence level, which is approximately 1.96.

p= is the estimated proportion of the population that has the characteristic of interest, in this case, the percentage of enterprises that meet the criteria to participate in the survey. For the sample definition exercise, it is assumed that the proportion of the population that has the characteristic of interest is equal to the proportion that does not, which is why a conservative value of p=0.5 is used.

e= is the permitted margin of error (in this case, 5% expressed as a decimal, i.e. 0.05).

In this case:

n = 16.553* (1.96^2 * 0.5 * (1 - 0.5)) / ((16.553- 1) * 0.05^2 + 1.96^2 * 0.5 * (1 - 0.5)) = 137.

2.2. Research Instruments

In the development of this research, interview-type instruments were used, specifically designed to collect the necessary data, and answer the research questions posed. These instruments were carefully designed and applied to guarantee the validity and reliability of the results obtained. Likewise, the type of interview defined was the structured interview.

The structured interview is based on a script of questions, which are always open-ended. The interviewees have to answer the same number of questions and the questions are the same for everyone, in the same defined order. Thus, the stimulus is the same for all participants in the interview, ensuring that the variety in the arrangement of questions does not alter the answers. Respondents, however, are free to express their response. However, the simple fact of always asking the same questions in the same order implies a great rigidity in the dynamics of the interview (Tejero, 2021).

2.3. Data Collection Process

To collect data on the financial effects of other comprehensive income in SMEs, an interview was used that inquires about aspects related to the topic under study and the financial reporting of organizations. The instrument was subjected to validation by ten experts as a primary procedure to ensure that the information collected is accurate, relevant, and useful. Professionals with academic and business experience in accounting and financial areas were selected for this purpose.

Once the experts were identified, they were provided with the structured interview for their review and comments on its validity and relevance in the context of the research. Based on the results obtained, adjustments were made to the first instrument in order to synthesize it, condensing into thematic components the most relevant aspects to establish the current state of the companies in the dimension of interest (area of intervention) and subsequently it was submitted for further validation, resulting in the acceptance of the instrument applied.

For the systematization and analysis of the data obtained from the application of the instrument, descriptive statistics were used to obtain a detailed description of the responses and to understand the distribution of the participants' opinions. In applying descriptive statistics, various measures and techniques are used to summaries and visualize the data in a clear and concise manner.

Having the instruments applied, the data obtained from the participants were compiled, relating the questions and the answers obtained for each of them (frequency), these data were loaded into the ATLAS.ti software, thus preceding a descriptive statistical analysis. With the descriptive analysis of the data generated, it is possible to obtain valuable information to understand the trends and patterns in the responses and to obtain an overview of the opinions of the participants in relation to the statements or questions posed, providing valuable information for the conclusions of the study.

3. RESULTS AND DISCUSSIONS

The role of the professional accountant in the correct recognition, measurement, presentation, and disclosure of ORI.

The accountant plays a fundamental role because he/she must be clear about the items that affect the ORI and the appropriate way to present them in the statement of comprehensive income, bearing in mind that this must be done on a variation basis. Likewise, he/she must verify the existence of the item, its possibility of reliable measurement for proper recognition and, if this cannot be done, the preparation of the corresponding explanatory notes of the main reasons that led to this situation.

On the other hand, the accounting process such as recognition, measurement, presentation, and disclosure are contemplated in the accounting policies, and these in turn are drawn up by the company's management. However, if the public accountant notices that any element of the accounting process is not defined in the policies, he must make the necessary suggestions for updating them, as well as if there are changes in international standards, a prospectus of the change is drawn up and suggested to the management.

As auditor, you must verify that the ORI is properly recorded and presented with transactions related to valuations of property, plant and equipment, translation of foreign operations or businesses, valuation of financial instruments with changes in equity, generating a separate annex to the statement of comprehensive income, incorporated at the end of the income statement.

Most significant changes in IFRS with respect to the ORI

In the first instance, a significant change in IFRS with respect to ORI is that it is presented separately from profit or loss to confirm comprehensive income, the understanding of the difference between the two results at the organisational level from a financial perspective, and the presentation of the statement as a single statement. In essence, a representative change has to do with the presentation of possible unrealised income and expenses that are presented in equity and in the event that they are realised, how this would impact the company's result.

Another significant change in IFRS with respect to the ORI is that the information on an entity's results can be affected by movements in balance sheet accounts that impact the company's equity position. It is a much more complete and comprehensive view that allows assessing the impact that the entity could have with investments measured at fair value with changes in equity (according to its business model), the effect of investments measured under the equity method, the impact of properties measured at revalued cost in which a valuation or devaluation could represent important business opportunities.

Effects of the ORI on the financial statements

One of the effects of ORI on the financial statements is that it increases or decreases assets and/or liabilities against equity, which is the owners' share, thus showing the financial reality. It is also an informative effect, similar to the memorandum accounts in Colombia before IFRS, so that the user of the financial information can evaluate the presentation of possible unrealized income and expenses that are presented in equity and, if realized, how this would impact the company's results.

On the other hand, another effect of ORI on the financial statements is the conception of realized and unrealized income and expenses and their immediate and future effect on the financial life of the company, thus, ORI items represent movement in equity that do not derive from transactions with partners or shareholders; they affect the statements of changes in equity and comprehensive income.

Effects of the ORI on financial indicators

One of the effects of ORI on financial indicators is when property, plant and equipment is measured at fair value, it increases the value of the assets, but decreases the value of the company. Also, ORI affects the financial structure of the organization in its increases or decreases. ORI corresponds to equity items (unrealized income or expenses) and impacts the indicators of ownership or indebtedness. Some may consider these unrealized valuations to measure the profitability of the business. For example, the valuation of a financial instrument investment in equity is an unrealized valuation, but should be considered for the profitability indicator.

In this order of ideas, it is important to take into account that the ORI impacts the financial indicators related to solvency, profitability, indebtedness as indebtedness over total assets, concentration of indebtedness, leverage indebtedness. In this way, it reflects more clearly the real operating profitability compared to the total profitability of the organization, providing a greater level of transparency on the management and use of the organisation's available resources and, in terms of usefulness, it allows indicating that obtained directly and through the activity in other types of operations other than the organization’s own purpose.

Effects of the inclusion of the ORI on the decision-making of SMEs that apply it

They can support decision making, because when incorporated into the income statement they provide a comprehensive view of the business, including items that could materialize and generate positive or negative impacts depending on the case, and affect the ability to generate long-term value.

It is important to bear in mind that ORI is only useful for decision making to the extent that it generates information on items that do not come from owners. Under the international accounting model, it is important to include it, as it is a standard and therefore has to be complied with. Thus, the ORI affects decision making to the extent that the SME takes into consideration the present and future effect of decisions on resources beyond the operation that have the potential to increase the company's result, which allows for an improvement in its financial management and planning.

Finally, it should be clarified that with the entry into force of IFRS, people are still reluctant to change. Generally speaking, if the ORI can be understood, it would be very useful for making decisions on whether or not to realize profits or whether or not to sell an asset in order to realize a profit or loss.

CONCLUSIONS

The analysis of the results allows us to conclude that the implementation of the ORI in SMEs in Medellín brings key benefits. Among these, the improvement in transparency stands out, as it provides detailed information on items that were not traditionally included in the income statement. This increased transparency is of great importance, as it contributes significantly to building confidence among investors and stakeholders, strengthening the perception of SMEs' financial operations.

The inclusion of ORI in financial reporting has a positive impact on informed decision-making by SMEs in Medellín. This is because it allows SMEs to provide investors and managers with a more complete and accurate view of their financial performance. This improved information becomes a strategy that empowers SMEs to adjust their operations as needed, thus ensuring their long-term sustainability.

Furthermore, sound data-driven decision making becomes essential for the continued success of SMEs, as the implementation of ORI in SMEs in Medellín ensures compliance with international accounting standards. This is essential for companies wishing to engage in international trade and attract foreign investors. Complying with these international standards increases credibility and competitiveness in global markets.

The proper application of the ORI in Medellín's SMEs can act as a stimulus for local investment, as investors, with detailed, clear and transparent financial information, will be more inclined to invest in the region's SMEs. This, in turn, can contribute to economic growth and employment generation in Medellín. The availability of reliable financial information makes SMEs attractive options for investors, which can have a positive impact on the local economy.

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